FACTSHEET

CAPITAL ALLOWANCES ON BUILDINGS

Capital allowances enable commercial property owners to obtain tax relief related to capital expenditure. This makes a property with capital allowances more valuable than an identical property without capital allowances. Capital allowances are available when a commercial property is purchased, constructed, fitted out, refurbished, or extended.

Even if these events happened a number of years ago, it may still be possible to go back and revisit the potential for a capital allowances claim. Qualifying commercial property includes shops, offices, hotels, restaurants, care homes, pubs, factories, industrial units, warehouses and communal areas of student flats.

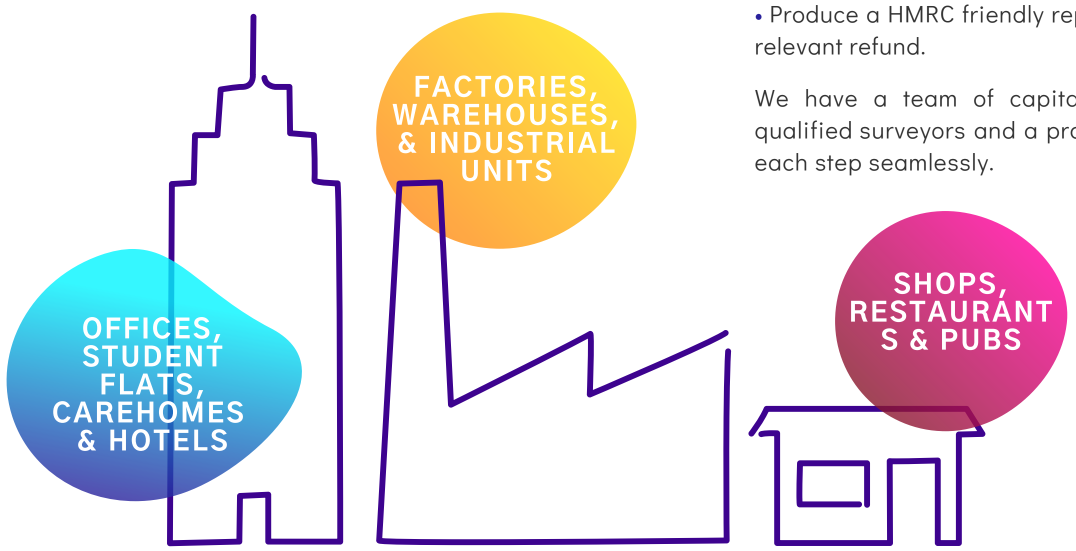
TAX IMPLICATIONS

- If there are unclaimed capital allowances in any of your commercial properties, you will receive a tax refund.
- You will receive an income tax refund if you own the properties personally and a corporation tax refund if you own the properties in a company.
- For example, if we identify £100,000 of expenditure qualifying for capital allowances, this will result in approximately £19,000 of corporation tax savings or a £40,000 personal tax saving.

PRACTICAL STEPS

- Identify any commercial properties you have bought or improved where you have not claimed capital allowances.
- Ascertain whether you have profits to offset the capital allowances against. Capital allowances are a tax relief and so it is important to ascertain whether you are paying tax or are expecting to do so.
- Undertake a site survey to take an inventory of everything in, on and around the premises which can qualify for capital allowances. Desktop reviews can be performed in certain circumstances.
- Produce a HMRC friendly report and apply to HMRC for the relevant refund.

We have a team of capital allowances tax specialists, qualified surveyors and a property lawyer who can perform each step seamlessly.



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FAQS

• Who can claim?

Any commercial property owner including a sole trader, partnership or limited company that owns commercial property.

• What qualifies for capital allowances?

All the features and items installed within a commercial property which make it fit for the purpose of its trade.

Qualifying items include carpets, bathrooms, kitchens, electrical works, security alarms, lifts, hot and cold water installations and all the building works and associated fees in connection with the building works.

• So, when should you claim?

It is a common misconception that capital allowances on qualifying expenditure are lost if they are not claimed in thetax return when the expenditure is originally incurred. This is not the case. There is no time limit to make a claim providing the asset is still owned and used for the purposes of the trade.

• Purchasing a building post April 2014

The rules for claiming capital allowances on second-hand commercial property purchases changed in 2014. Capital allowances must now be dealt with before the legal exchange of contracts to avoid blindly destroying the capital allowance value embedded within the building.

If you are a seller or you are acting for the seller, you will want to claim all possible capital allowances before you sell the commercial property. If you are a buyer or you are acting for a buyer, you will want the capital allowances to pass to you as part of the sales negotiation.

Capital allowances should therefore be dealt with as part of the contract.

To understand the capital allowances position at the time of the legal transaction, the following documents must be reviewed:

- Sale & purchase contract
- CPSE replies to enquiries
- s198 election

• What if you purchase a building post April 2014 and have not dealt with the capital allowances at the contract stage?

All is not lost. In April 2008 additional qualifying integral features were added to the capital allowances pot. The introduction of these additional qualifying items provides further scope to claim capital allowances for purchasers of commercial buildings.

For example, if a seller purchased a commercial property prior to April 2008, and then sold the property today, the purchaser can claim what is called "an overage claim" representing the integral features which the seller was never entitled to, as it was owned by the seller prior to April 2008. Integral features include:

- General electrics and lighting
- Cold water systems
- External solar shading
- Thermal insulation

Anybody who acquired or developed property prior to April 2008 would not have been able to claim allowances on the items listed above. These items represent between 5% and 10% of the value of a commercial property.

• I am considering a capital allowances claim. Will this impact the capital gains calculations when I dispose of the property?

No! There is a common misconception that any savings achieved by claiming capital allowances will be cancelled out later by an increased chargeable gain. This is not true. It is not necessary to deduct any capital allowances from the cost of an asset for capital gains purposes, so it is not possible for a capital allowances claim to create or increase a chargeable gain.

• So you can't claim on residential property, but can you claim for Houses with Multiple Occupancy (HMOs e.g. student houses)?

In certain circumstances you can. The first point to note is that capital allowances are not available for plant and machinery in domestic dwelling houses. There has been much discussion as to what a dwelling is, but HMRC is of the view that it provides the facilities required for day-to-day private domestic existence. HMRC states in its briefing note that student accommodation such as an HMO which includes individual bedrooms and communal kitchens are domestic dwellings, with no capital allowances available.

It is possible to compare this to common, non-domestic dwelling areas (such as entrance halls, corridors or lifts) which serve a number of flats. In this instance, the plant and machinery in the common areas is eligible for capital allowances. It is worth noting that fire safety equipment throughout the flats or HMO is eligible for tax relief.

• Can I claim capital allowances on a furnished holiday letting?

Yes! Capital allowances can be claimed on items such as chairs, beds, cupboards, TVs and lamps. These are obvious movable items that are usually claimed. What is not always appreciated is the ability to claim capital allowances on the "integral features" which would include items such as the heating, electrics and plumbing.

As a rule of thumb, these integral features can often amount to between 10% and 30% of a property when purchased. This percentage will be at the upper range when there are items such as air conditioning and a swimming pool.

• Can you get capital allowances on the structure of a building?

A new tax relief known as the Structures and Buildings Allowance (SBA) has been introduced. If you buy commercial property where the construction contract was signed on or after 29 October 2018, relief is given at an annual flat rate of 2% over a 50-year period.

Offices, retail and wholesale premises, walls, bridges, tunnels, factories and warehouses can all qualify for relief.

- The property must be used for a qualifying activity such as a trade or property letting. Allowances can be claimed once the property is brought into qualifying use.
- It doesn't matter if the property is situated overseas as long as your business is within the charge to UK tax.
- Relief is also available for the cost of converting orrenovating a property. The expenditure qualifies for its own separate 2% write-off over the next 50 years.

Call us now on: 0121 753 5522
or Email us at: enquiries@onyx.accountants

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